

From:	Chairman Pension Fund Committee Corporate Director of Finance
To:	Pension Fund Committee – 8 December 2022
Subject:	Fund Position
Classification:	Unrestricted

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**Summary:**

To provide a summary of the Fund's asset allocation and performance.

**Recommendation:**

The Committee to note the Fund's asset allocation and performance as of 30 September 2022

**FOR INFORMATION**

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**1. Introduction**

- 1.1 This report provides an update on the Fund's asset allocation and performance.
- 1.2 A copy of the Fund Position Statement is at Appendix 1

**2. Fund value and asset allocation**

- 2.1 As of 30 September 2022, the Fund's value was £7.64bn, an increase of £68m over the quarter.
- 2.2 All asset classes remain within their target allocation ranges and therefore no rebalancing is required.

**3. Investment performance quarter to 30 September 2022**

- 3.1 As central banks continued to raise interest rates and tighten monetary policy to fight rising inflation, the fear of recession put pressure on all asset classes and increased volatility. Towards the end of the quarter, news of significant changes to the UK's fiscal plans in Chancellor Kwarteng's mini-budget caused volatility to increase further, with sterling depreciating and gilt yields rising sharply. Certain, mainly corporate, pension schemes operating Liability Driven Investment (LDI) programmes, began to liquidate their gilt holdings to meet collateral calls which exacerbated the sell-off in gilts. The Bank of England needed to intervene to prevent a feedback loop from becoming embedded, and ultimately managed to stabilise gilt prices.
- 3.2 Whilst local currency returns in most asset classes were negative, for UK investors, the fall in the GBP against the USD partially – and in some cases

entirely - offset some of these negative returns. Whereas the MSCI All Companies World Index (ACWI) index returned -6.8% in USD, its returns were +1.5% when translated into GBP. UK equities saw a fall of -3.9%. The prominence of energy and financials stocks as well as global nature of revenue of multinationals in the UK index cushioned the fall in the UK index.

- 3.3 Rising interest rates also had a negative impact on property which recorded a return of -4.1% for the quarter.
- 3.4 Among the Fund's liquid asset class mandates (UK equity, global equity, fixed income and absolute return), most appointed managers (with the exception of Baillie Gifford and Ruffer) underperformed their benchmarks over the quarter. However, the Fund continued to benefit from the equity protection programme in place against its global equities' exposure, which added £137m to the Fund. As a result, the overall Fund generated a small positive return of 0.85% over the quarter, which compares favourably to the benchmark (-0.52%).
- 3.5 Among the illiquid asset classes, private equity and Infrastructure returns continued to be strong due to the lagged timing of valuations. However, the impact of the economic slowdown is expected to flow through eventually to be reflected in coming quarters.
- 3.6 Rising interest rates and the slowing down of the economy also had a negative impact on UK property, with the benchmark IPD UK Property Fund Index recording a -4.1% return for the quarter. The Pension Fund's investments performed relatively well against the index: DTZ, Fidelity and Aegon (Kames) each outperformed the index (albeit still returning negatively) whilst the M&G UK Residential Fund gained 1.7%.

#### **4. Longer term performance**

- 4.1 For the year ended September 2022, the Fund achieved a return of -2.60% against a benchmark return of 0.95%, an underperformance of 3.55%. The Fund is heavily weighted towards equities and bonds, both of which came under pressure in the 12 months as central banks raised interest rates to combat inflation aggravated by continued pandemic supply chain disruption as well as geopolitical events, most notably the Ukraine conflict.
- 4.2 The Fund's equity and fixed income managers have had mixed performance against their individual benchmarks over the period. The largest negative contribution came from growth manager Baillie Gifford, who returned -36.6% over the 12 months to 30 September. Conversely, the M&G Global Dividend Fund and the Schroders Global Active Value Fund added value over the year, a period in which cyclical/value strategies have benefitted from the emergence from pandemic induced lockdowns. Property assets have also recorded strong growth recovering from post covid lockdown.
- 4.3 The Fund operates a diversified asset allocation, across a range of asset classes and styles, together with an equity protection programme, in order to manage risk and meet its investment objectives.
- 4.4 Over three years, the Fund has outperformed with a return of 5.90% per annum compared to the benchmark return of 4.75% p.a.

## 5. Outlook

- 5.1 The investment outlook remains challenging. Although there has been a significant repricing of financial assets during the year to date, a slowing global economy will limit corporate earnings growth, and further rises in interest rates to battle inflation will continue to weigh on returns. The Fund aims to limit volatility by diversifying sources of return within the portfolio. The Fund will be reviewing its investment strategy over the winter to take advantage of the revised valuation results.

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**December 2022**

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